



# MAGNOLIA PUBLIC SCHOOLS

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## Magnolia Educational and Research Foundation Regular Board Meeting Minutes

Magnolia Public Schools  
3754 Dunn Dr. Los Angeles, CA 90034  
Thursday, June 9, 2011  
6:30 – 8:30 pm

1. The meeting was called to order at 7:00 pm. The following board members were present: Dr. Metin Oguzemert, Mr. Saken Sherkhanov. The Following board members joined via telephone/video conference: Dr. Mustafa Nazmi Kaynak, Dr. Bayram Yenikaya and Dr. Ting Lan Sun. The following board Members were absent: Ms. Pauline Galeano and Dr. Guilbert C. Hentschke.
2. The salute to the flag was led by Dr. Oguzmert.
3. There was no public comment for items not listed on the agenda.
4. Approval of the April 14 minutes was postponed pending Dr. Sun's request for additional description of April 14 public comment.
5. Motion to approve *Employee At Will Agreement* made by Dr. Bayram Yenikaya. Motion seconded by Dr. Sun. Motion passed unanimously.
6. Motion to approve 2011-12 academic calendar made by Dr. Sun. Motion seconded by Mr. Saken Sherkhanov. Motion passed unanimously.
7. Carol Barkley presented a summary of actions taken to resolve concerns expressed by parents of Magnolia Science Academy (MSA)– 6 Palms, which included parent meetings, parent interviews, and the development of matrix of issues. Dr. Bahceci presented an improvement plan in the areas of academic rigor, college readiness programs, STEM instruction and school environment. Kate Shaw, MSA-6 parent asked clarifying questions and requested that background materials for board items be posted as part of the agenda.
8. Dr. Bahceci presented an update of activities at all Magnolia Public School locations.
9. Mekan Muhammedov presented a financial summary.
10. Dr. Bahceci informed the board of approval of the Magnolia Public School Intern Program by the California Commission on Teacher Credentialing. Planning for full implementation in Fall 2012 will begin immediately.
11. The meeting was adjourned at 9 pm.

(Approved by the Board on Aug 18<sup>th</sup> 2011)

# Supplemental Materials

***MAGNOLIA SCIENCE ACADEMY — /***  
***AUDITED FINANCIAL STATEMENTS***  
***FOR THE YEAR ENDED***  
***JUNE 30, 2010***

# ***MAGNOLIA SCIENCE ACADEMY***

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# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy**  
Reseda, California

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial position of **Magnolia Science Academy** as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Magnolia Science Academy's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Science Academy** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2010 on our consideration of **Magnolia Science Academy's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Magnolia Science Academy** taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Mergem and Associates LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY**  
**STATEMENT OF FINANCIAL POSITION**  
At June 30, 2010

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 480,084
Accounts receivable	<u>258,953</u>

<b>Total current assets</b>	<u>739,037</u>
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**PROPERTY AND EQUIPMENT:**

Equipment	206,577
Leasehold improvements	363,748
Less: accumulated depreciation	<u>(570,325)</u>

<b>Net property and equipment</b>	<u>0</u>
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**OTHER ASSETS:**

Security deposits	<u>39,035</u>
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<b>Total other assets</b>	<u>39,035</u>
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<b>Total assets</b>	<u><u>\$ 778,072</u></u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	\$ 14,635
Accrued payroll liabilities	42,857
Loans payable - related party (Note 4)	<u>5,000</u>

<b>Total current liabilities</b>	<u>62,492</u>
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**NET ASSETS:**

Unrestricted	<u>715,580</u>
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<b>Total net assets</b>	<u>715,580</u>
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<b>Total liabilities and net assets</b>	<u><u>\$ 778,072</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

**REVENUES:**

Federal support	\$ 250,003
State support	2,798,124
Local support	954,162
Program service	61,713
Private contribution	14,569
Other revenues	<u>26,099</u>

<b>Total revenues</b>	<u><b>4,104,670</b></u>
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**EXPENSES:**

Certificated salaries	1,052,984
Classified salaries	260,305
Fringe benefits	720,876
Books and supplies	231,869
Services and other operating expenses	1,356,484
Depreciation	33,071
Other expenses	<u>5,624</u>

<b>Total expenses</b>	<u><b>3,661,213</b></u>
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<b>Increase in net assets</b>	<b>443,457</b>
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Net assets, beginning of the year	<u>272,123</u>
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<b>Net assets, end of the year</b>	<u><u><b>\$ 715,580</b></u></u>
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The accompanying notes are an integral part of these financial statements.



**MAGNOLIA SCIENCE ACADEMY**  
**STATEMENT OF CASH FLOWS**  
For the year ended June 30, 2010

<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 443,457
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	33,071
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets:	
Accounts receivable	(258,953)
Increase (decrease) in liabilities:	
Accounts payable	(5,107)
Accrued payroll liabilities	<u>42,857</u>
<b>Net cash provided by operating activities</b>	<u>255,325</u>
<b>Cash flows from financing activities:</b>	
Proceeds from loans	<u>5,000</u>
<b>Net cash provided by financing activities</b>	<u>5,000</u>
<b>Net increase in cash</b>	<u>260,325</u>
Cash and cash equivalents, beginning of the year	<u>219,759</u>
<b>Cash and cash equivalents, end of the year</b>	<u><u>\$ 480,084</u></u>

The accompanying notes are an integral part of these financial statements.

# **MAGNOLIA SCIENCE ACADEMY**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **NATURE OF BUSINESS**

Magnolia Science Academy (School) is a charter school located in Reseda, California that provides sixth through twelfth grade education to approximately 400 students. The School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

#### **FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements are prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations."

#### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **CASH AND CASH EQUIVALENTS**

For the purpose of the Statement of Cash Flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

#### **INCOME TAXES**

The School is considered to be a local school district for tax purposes. Accordingly, no provisions for income taxes or related credits are included in the accompanying financial statements.

#### **PROPERTY AND EQUIPMENT**

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

These notes are an integral part of the preceding financial statements.

# MAGNOLIA SCIENCE ACADEMY

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 2 - OPERATING LEASES**

The School leases its facilities in Reseda, California, under an operating lease, which commenced August 1, 2002. The lease is for a five year term with monthly payments of \$30,057. The School also entered into a lease for a gymnasium that commenced January 1, 2004, expiring July 31, 2007. The lease was extended for an additional 60 months until July 31, 2012. Monthly payments are \$8,977. Total rent expense during the year ended June 30, 2010 was \$561,944.

The future minimum commitments are as follows:

<u>For the year ended June 30,</u>	<u>Educ. Facility</u>	<u>Gym</u>	<u>Total</u>
2011	\$ 360,684	\$ 125,520	\$ 486,204
2012	360,684	125,520	486,204
2013	<u>30,057</u>	<u>10,460</u>	<u>40,517</u>
Total	\$ <u>751,425</u>	\$ <u>261,500</u>	\$ <u>1,012,925</u>

### **NOTE 3 - LOANS PAYABLE - RELATED PARTY**

#### **RELATED PARTY LOAN**

In fiscal year ended June 30, 2010, the School signed several promissory notes to a related party for a loan of \$90,000. The loan is due within 12 month. The outstanding balance of this loan on June 30, 2010 was \$5,000.

These notes are an integral part of the preceding financial statements.

***SUPPLEMENTARY INFORMATION***

## **MAGNOLIA SCIENCE ACADEMY**

### **SUPPLEMENTARY INFORMATION**

#### **LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE**

Name of School	Magnolia Science Academy
Sponsoring District	LAUSD
Original date of charter	7/1/2002
Charter expiration date	6/30/2012

#### **GOVERNING BOARD**

<u>Member</u>	<u>Title</u>	<u>Term Expires</u>
Metin Oguzmert	President	06/30/12
Saken Sherkhanov	Vice President	06/30/13
Nichole Ataizi	Secretary	06/30/13
Bayram Yenikaya	Director	11/19/14
Mustafa Kaynak	Director	11/19/14
Duygu Ustun	Director	11/19/14
Pauline Galeano	Director	11/19/14

#### **MANAGEMENT TEAM**

Varol Gurler- Principal  
Mekan Muhammedov, Finance Director

# MAGNOLIA SCIENCE ACADEMY

## SUPPLEMENTARY INFORMATION

### SCHEDULE OF AVERAGE DAILY ATTENDANCE

	<u>Annual ADA</u>	<u>Second Period ADA</u>
<b><i>Elementary School</i></b>		
Grades four through six-classroom based	106.15	106.43
Grades seven through eight-classroom based	166.61	167.87
<b><i>High School</i></b>		
Grades nine through twelve-classroom based	184.90	186.06
Total	<u>457.66</u>	<u>460.36</u>

The above schedule of average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

### SCHEDULE OF INSTRUCTIONAL TIME

<u>Grade level</u>	<u>Minute requirement</u>	<u>Actual minutes</u>	<u>Number of days</u>	<u>Status</u>
Grade 6	52,457	66,835	177	Complied
Grade 7	52,457	66,835	177	Complied
Grade 8	52,457	66,835	177	Complied
Grade 9	62,949	66,835	177	Complied
Grade 10	62,949	66,835	177	Complied
Grade 11	62,949	66,835	177	Complied
Grade 12	62,949	66,835	177	Complied

The above schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

***SUPPLEMENTARY INFORMATION SECTION  
REQUIRED BY GOVERNMENT AUDITING STANDARDS***

# **HILL, MORGAN AND ASSOCIATES, LLP**

## ***Certified Public Accountants***

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Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy**  
Reseda, California

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of **Magnolia Science Academy** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered **Magnolia Science Academy's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Magnolia Science Academy's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Magnolia Science Academy's** internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Magnolia Science Academy's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of **Magnolia Science Academy's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hell, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy**  
Reseda, California

### INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the financial statements of **Magnolia Science Academy** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of **Magnolia Science Academy** is responsible for compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine **Magnolia Science Academy's** compliance with state laws and regulations applicable to the following:

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
Attendance Accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuance	3	Not applicable
Independent study	23	Not applicable
Continuation education	10	Not applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
<b>Instructional Time:</b>		
School districts	6	Not applicable
County offices of education	3	Not applicable
<b>Instructional Materials:</b>		
General requirements	8	Not applicable
<b>Ratios of Administrative Employees to Teachers</b>	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Not applicable
School accountability report cards	3	Not applicable
Public hearing requirements-receipt of funds	1	Not applicable
<b>Class Size Reduction Program (Including Charter School):</b>		
General requirements	7	Yes
Option one classes	3	Not applicable
Option two classes	4	Not applicable
District or charter schools with only one school		
Servicing K-3	4	Yes
<b>After school education and safety program: (Including Charter Schools):</b>		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
<b>Charter Schools:</b>		
Contemporaneous record of attendance	1	Yes
Mode of instructions	1	Yes
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instructional minutes-classroom based	3	Yes

Based on our audit, we found that, for the items tested, **Magnolia Science Academy** complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that **Magnolia Science Academy** had not complied with the state laws and regulations.

This report is intended solely for the information and use of **Magnolia Science Academy's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Helly Mueggen And Associates, LLP*  
Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FINANCIAL STATEMENT FINDINGS**

None noted.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**

None noted.

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings noted.

***MAGNOLIA SCIENCE ACADEMY-2***  
***AUDITED FINANCIAL STATEMENTS***  
***FOR THE YEAR ENDED***  
***JUNE 30, 2010***

## ***MAGNOLIA SCIENCE ACADEMY-2***

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# **HILL, MORGAN AND ASSOCIATES, LLP**

## ***Certified Public Accountants***

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Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-2**  
Reseda, California

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial position of **Magnolia Science Academy-2** as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Magnolia Science Academy-2's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Science Academy-2** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2010 on our consideration of **Magnolia Science Academy-2's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Magnolia Science Academy-2** taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hell, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY 2**  
**STATEMENT OF FINANCIAL POSITION**  
At June 30, 2010

<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 176,398
Account receivable	<u>159,399</u>
<b>Total current assets</b>	<u>335,797</u>
<b>PROPERTY AND EQUIPMENT:</b>	
Equipment	78,638
Leasehold improvement	10,060
Less: accumulated depreciation	<u>(32,828)</u>
<b>Net property and equipment</b>	<u>55,870</u>
<b>Total assets</b>	<u><u>\$ 391,667</u></u>

<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 2,268
Line of credit (Note 3)	50,000
Loans payable - current portion (Note 4)	58,335
Loans payable - related party (Note 4)	<u>30,000</u>
<b>Total current liabilities</b>	<u>140,603</u>
<b>LONG-TERM LIABILITIES:</b>	
Loans payable - net of current portion (Note 4)	50,000
<b>Total liabilities</b>	<u>190,603</u>
<b>NET ASSETS:</b>	
Unrestricted	<u>201,064</u>
<b>Total net assets</b>	<u>201,064</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 391,667</u></u>

The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 2**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

**REVENUES:**

Federal support	\$ 102,070
State support	<u>1,601,258</u>

<b>Total revenues</b>	<u>1,703,328</u>
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**EXPENSES:**

Certificated salaries	541,375
Classified salaries	121,808
Fringe benefits	223,782
Books and supplies	100,660
Services and other operating expenses	506,856
Interest expense	7,237
Depreciation	16,733
Capital outlay	8,704
Other outgo	<u>923</u>

<b>Total expenses</b>	<u>1,528,078</u>
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<b>Increase in net assets</b>	175,250
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Net assets, beginning of the year	<u>25,814</u>
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<b>Net assets, end of the year</b>	<u><u>\$ 201,064</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 2**  
**STATEMENT OF CASH FLOWS**  
For the year ended June 30, 2010

<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 175,250
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	16,733
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets:	
Account receivable	(159,399)
Increase (decrease) in liabilities:	
Accounts payable	<u>(32,630)</u>
<b>Net cash used in operating activities</b>	<u>(46)</u>
<b>Cash flows from financing activities:</b>	
Proceeds from line of credit	27,280
Proceeds from loans	<u>22,229</u>
<b>Net cash provided by financing activities</b>	<u>49,509</u>
<b>Net increase in cash</b>	<u>49,463</u>
Cash and cash equivalents, beginning of the year	<u>126,935</u>
<b>Cash and cash equivalents, end of the year</b>	<u><u>\$ 176,398</u></u>

The accompanying notes are an integral part of these financial statements.

## **MAGNOLIA SCIENCE ACADEMY-2**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **NATURE OF BUSINESS**

Magnolia Science Academy-2 (School) is a charter school located in Reseda, California that provides sixth through twelfth grade education to approximately 211 students. The School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

##### **FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements are prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations."

##### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **CASH AND CASH EQUIVALENTS**

For the purpose of the Statement of Cash Flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

##### **INCOME TAXES**

The School is considered to be a local school district for tax purposes. Accordingly, no provisions for income taxes or related credits are included in the accompanying financial statements.

##### **PROPERTY AND EQUIPMENT**

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

These notes are an integral part of the preceding financial statements.

## MAGNOLIA SCIENCE ACADEMY-2

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 2 - OPERATING LEASES**

The School has entered into lease agreements for educational facility and equipment. The characteristics of these lease agreements are such that they are recorded on the general ledger as operating type leases.

The lease agreement for equipment began in October, 2007 and has a term of five years with monthly payments of \$708.

The lease agreement for the educational facility began on August 7, 2007 and has a term of three years. Monthly payments of \$13,144 are due in year one, \$13,538 in year two, and \$13,944 in year three. The lease expired on August 15, 2010. The School moved to a District provided Prop 39 building in Van Nuys, California. Formal lease agreement is under negotiation.

The total expense for equipment and facility leases for the fiscal year ended June 30, 2010 was \$236,521.

The future minimum commitments are as follows:

<u>For the year ended June 30,</u>	<u>Equipment</u>	<u>Educ. Facility</u>
2011	\$ 8,496	\$ 20,916
2013	<u>2,832</u>	<u>-0-</u>
Total	\$ <u>11,328</u>	\$ <u>20,916</u>

#### **NOTE 3 - LINE OF CREDIT**

The School established a \$50,000 line of credit with a local bank on July 31, 2001. The outstanding principal balance bears interest at a fluctuating rate per annum equal to the Bank's Reference Rate plus 2.5%. The outstanding balance at June 30, 2010 was \$50,000.

These notes are an integral part of the preceding financial statements.

## MAGNOLIA SCIENCE ACADEMY-2

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 4 - LOANS PAYABLE**

##### **CALIFORNIA DEPARTMENT OF EDUCATION**

The School received an unsecured revolving loan payable to the California Department of Education totaling \$150,000 on June 25, 2009. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 1.26% and it matures in three years. The repayment terms require six monthly payments each year in three fiscal years beginning on September 20, 2009. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.

##### **RELATED PARTY LOAN**

On December 4, 2007, the School signed a promissory note to a related party for a loan of \$100,000 with interest rate at 7%. The loan is due upon demand, however, twelve monthly payments of \$8,916 are due beginning in January 2008. The outstanding balance of this loan on June 30, 2010 was \$30,000.

The future minimum principal payments are as follows:

<u>For the year ended June 30,</u>	<u>Amount</u>
2011	\$ 138,335
2012	<u>50,000</u>
Total	\$ <u>188,335</u>

These notes are an integral part of the preceding financial statements.

***SUPPLEMENTARY INFORMATION***



## **MAGNOLIA SCIENCE ACADEMY-2**

### **SUPPLEMENTARY INFORMATION**

#### **LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE**

Name of School	Magnolia Science Academy-2
Sponsoring District	LAUSD
Original date of charter	7/1/2002
Charter expiration date	6/30/2012

#### **GOVERNING BOARD**

<u>Member</u>	<u>Title</u>	<u>Term Expires</u>
Metin Oguzmert	President	06/30/12
Saken Sherkhanov	Vice President	06/30/13
Nichole Ataizi	Secretary	06/30/13
Bayram Yenikaya	Director	11/19/14
Mustafa Kaynak	Director	11/19/14
Duygu Ustun	Director	11/19/14
Pauline Galeano	Director	11/19/14

#### **MANAGEMENT TEAM**

Erdal Kocak- Principal  
Mekan Muhammedov, Finance Director

## MAGNOLIA SCIENCE ACADEMY-2

### SUPPLEMENTARY INFORMATION

#### SCHEDULE OF AVERAGE DAILY ATTENDANCE

	<u>Annual ADA</u>	<u>Second Period ADA</u>
<b><i>Elementary School</i></b>		
Grades four through six-classroom based	69.14	69.71
Grades seven through eight-classroom based	108.57	109.77
Grades nine through ten-classroom based	30.86	31.43
Total	208.57	210.91

The above schedule of average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

#### SCHEDULE OF INSTRUCTIONAL TIME

<u>Grade level</u>	<u>Minute requirement</u>	<u>Actual minutes</u>	<u>Number of days</u>	<u>Status</u>
Grade 6	52,457	73,184	178	Complied
Grade 7	52,457	73,184	178	Complied
Grade 8	52,457	73,184	178	Complied
Grade 9	62,949	73,184	178	Complied
Grade 10	62,949	73,184	178	Complied

The above schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

***SUPPLEMENTARY INFORMATION SECTION  
REQUIRED BY GOVERNMENT AUDITING STANDARDS***

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-2**  
Reseda, California

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of **Magnolia Science Academy-2** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Magnolia Science Academy-2's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Magnolia Science Academy-2's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Magnolia Science Academy-2's** internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Magnolia Science Academy-2's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of **Magnolia Science Academy-2's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Hell, Morgan and Associates, LLP

Carson, California  
November 23, 2010

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-2**  
Reseda, California

### INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the financial statements of **Magnolia Science Academy-2** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of **Magnolia Science Academy-2** is responsible for compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine **Magnolia Science Academy-2's** compliance with state laws and regulations applicable to the following:

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
Attendance Accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuance	3	Not applicable
Independent study	23	Not applicable
Continuation education	10	Not applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
<b>Instructional Time:</b>		
School districts	6	Not applicable
County offices of education	3	Not applicable
<b>Instructional Materials:</b>		
General requirements	8	Not applicable
Ratios of Administrative Employees to Teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Not applicable
School accountability report cards	3	Not applicable
Public hearing requirements-receipt of funds	1	Not applicable
<b>Class Size Reduction Program (Including Charter School):</b>		
General requirements	7	Not applicable
Option one classes	3	Not applicable
Option two classes	4	Not applicable
District or charter schools with only one school		
Servicing K-3	4	Not applicable
<b>After school education and safety program: (Including Charter Schools):</b>		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
<b>Charter Schools:</b>		
Contemporaneous record of attendance	1	Yes
Mode of instructions	1	Yes
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instructional minutes-classroom based	3	Yes

Based on our audit, we found that, for the items tested, **Magnolia Science Academy-2** complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that **Magnolia Science Academy-2** had not complied with the state laws and regulations.

This report is intended solely for the information and use of **Magnolia Science Academy-2's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hell, Morgan and Associates LLP*

Carson, California  
November 23, 2010



**MAGNOLIA SCIENCE ACADEMY-2**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FINANCIAL STATEMENT FINDINGS**

None noted.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**

None noted.

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings noted.

***MAGNOLLA SCIENCE ACADEMY-3  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2010***

# ***MAGNOLIA SCIENCE ACADEMY-3***

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# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-3**  
Gardena, California

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial position of **Magnolia Science Academy-3** as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Magnolia Science Academy-3's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Science Academy-3** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2010 on our consideration of **Magnolia Science Academy-3's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Magnolia Science Academy-3** taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY 3**  
**STATEMENT OF FINANCIAL POSITION**  
At June 30, 2010

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 32,109
Accounts receivable	158,032
Loans receivable - related party (Note 3)	<u>95,000</u>

<b>Total current assets</b>	<u>285,141</u>
-----------------------------	----------------

**PROPERTY AND EQUIPMENT:**

Furniture and equipment	112,624
Less: accumulated depreciation	<u>(19,135)</u>

<b>Net property and equipment</b>	<u>93,489</u>
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<b>Total assets</b>	<u><u>\$ 378,630</u></u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	\$ 27,262
Loans payable - current portion (Note 4)	72,916
Loans payable - related party (Note 4)	<u>30,000</u>

<b>Total current liabilities</b>	<u>130,178</u>
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**LONG-TERM LIABILITIES:**

Loans payable - long term portion (Note 4)	<u>125,000</u>
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<b>Total long-term liabilities</b>	<u>125,000</u>
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<b>Total liabilities</b>	<u>255,178</u>
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**NET ASSETS:**

Unrestricted (deficit)	<u>123,452</u>
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<b>Total net assets</b>	<u>123,452</u>
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<b>Total liabilities and net assets</b>	<u><u>\$ 378,630</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 3**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

**REVENUES:**

Federal support	\$ 246,921
State support	1,491,525
Local support	<u>1,502</u>

<b>Total revenues</b>	<u>1,739,948</u>
-----------------------	------------------

**EXPENSES:**

Certificated salaries	573,036
Classified salaries	170,927
Fringe benefits	217,053
Books and supplies	181,721
Services and other operating expenses	452,622
Depreciation	10,132
Other outgo	<u>39</u>

<b>Total expenses</b>	<u>1,605,530</u>
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<b>Increase in net assets</b>	134,418
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Net assets, beginning of the year	<u>(10,966)</u>
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<b>Net assets, end of the year</b>	<u><u>\$ 123,452</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 3**  
**STATEMENT OF CASH FLOWS**  
For the year ended June 30, 2010

<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 134,418
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	10,132
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets:	
Accounts receivable	(158,032)
Other receivable	28,355
Increase (decrease) in liabilities:	
Accounts payable	<u>17,423</u>
<b>Net cash provided by operating activities</b>	<u>32,296</u>
<b>Cash flows from investing activities:</b>	
Cash used to purchase fixed assets	<u>(22,589)</u>
<b>Net cash used in investing activities</b>	<u>(22,589)</u>
<b>Cash flows from financing activities:</b>	
Cash used to lend to related parties	(85,000)
Cash received as loan payback	40,000
Cash used to pay loan	(52,084)
Proceeds from loans	<u>20,000</u>
<b>Net cash used in financing activities</b>	<u>(77,084)</u>
<b>Net decrease in cash</b>	<u>(67,377)</u>
Cash and cash equivalents, beginning of the year	<u>99,486</u>
<b>Cash and cash equivalents, end of the year</b>	<u><u>\$ 32,109</u></u>

The accompanying notes are an integral part of these financial statements.



## **MAGNOLIA SCIENCE ACADEMY-3**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **NATURE OF BUSINESS**

Magnolia Science Academy-3 (School) is a charter school located in Gardena, California that provides sixth through twelfth grade education to approximately 201 students. The School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

##### **FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements are prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations."

##### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **CASH AND CASH EQUIVALENTS**

For the purpose of the Statement of Cash Flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

##### **INCOME TAXES**

The School is considered to be a local school district for tax purposes. Accordingly, no provisions for income taxes or related credits are included in the accompanying financial statements.

##### **PROPERTY AND EQUIPMENT**

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

These notes are an integral part of the preceding financial statements.

## MAGNOLIA SCIENCE ACADEMY-3

### NOTES TO FINANCIAL STATEMENTS

#### **NOTE 2 - OPERATING LEASES**

The School has entered into lease agreements for educational facility and equipment. The characteristics of these lease agreements are such that they are recorded on the general ledger as operating type leases.

The lease agreement for equipment began on September 18, 2008 and has a term of five years with monthly payments of \$627.

On August 13, 2009, the School signed a lease with Los Angeles Unified School District for the educational facility began on August 17, 2009. The lease ends June 30, 2010 and is renewable year by year upon mutual agreement.

The total expense for equipment and facility leases for the fiscal year ended June 30, 2010 was \$107,636.

The future minimum commitments are as follows:

<u>For the year ended June 30,</u>	<u>Equipment</u>
2011	7,524
2012	7,524
2013	<u>1,881</u>
Total	\$ <u>16,929</u>

#### **NOTE 3 - LOANS RECEIVABLE**

##### **RELATED PARTY LOANS**

The School loaned \$50,000 to a related party in the previous fiscal year. The loan is receivable in 12 equal monthly payments at a rate of 7%. The balance of this loan was \$30,000 on June 30, 2010.

The School loaned \$40,000 to a related party on February 22, 2010. The loan is interest free and is due within 12 months. The balance of this loan was \$20,000 on June 30, 2010.

The School loaned \$45,000 to a related party on March 1, 2010. The loan is interest free and is due within 12 months. The balance of this loan was \$45,000 on June 30, 2010.

These notes are an integral part of the preceding financial statements.

# MAGNOLIA SCIENCE ACADEMY-3

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 4 - LOANS PAYABLE**

#### **CHARTER SCHOOL REVOLVING LOAN PROGRAM**

The School has an unsecured revolving loan payable to the California Department of Education totaling \$250,000. The loan was received in fiscal year 2008-09, and has an interest rate of 1.57%. The loan repayment terms require four annual payments of \$62,500 over the next four years. The outstanding balance was \$197,916 on June 30, 2010. The maturity date is June 30, 2013.

#### **RELATED PARTY LOAN**

On May 28, 2008, the School signed a promissory note to a related party for a loan of \$30,000 with interest rate at 7%. The loan repayment terms require 12 equal payments of \$2,585 per month beginning in November, 2008. The balance of this loan on June 30, 2010 was \$10,000.

On June 29, 2010, the School signed a promissory note to a related party for a loan of \$20,000. The loan is interest free and is due within 12 months. The balance of this loan was \$20,000 on June 30, 2010

Principal maturities are listed as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2011	102,916
2012	62,500
2013	<u>62,500</u>
Total	\$ <u>227,916</u>

### **NOTE 5 - YEARLY OPERATION LEASE**

On August 17, 2009, the School entered a lease agreement with Los Angeles Unified School District for the use of an education facility in Los Angeles. The lease is renewed yearly based on mutual agreement. The annual lease amount for fiscal year 2009-2010 was \$86,877.

These notes are an integral part of the preceding financial statements.

***SUPPLEMENTARY INFORMATION***

## **MAGNOLIA SCIENCE ACADEMY-3**

### **SUPPLEMENTARY INFORMATION**

#### **LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE**

Name of School	Magnolia Science Academy-3
Sponsoring District	LAUSD
Original date of charter	7/12/2007
Charter expiration date	6/30/2012

#### **GOVERNING BOARD**

<u>Member</u>	<u>Title</u>	<u>Term Expires</u>
Metin Oguzmert	President	06/30/12
Saken Sherkhanov	Vice President	06/30/13
Nichole Ataizi	Secretary	06/30/13
Bayram Yenikaya	Director	11/19/14
Mustafa Kaynak	Director	11/19/14
Duygu Ustun	Director	11/19/14
Pauline Galeano	Director	11/19/14

#### **MANAGEMENT TEAM**

Metin Demir - Principal  
Mekan Muhammedov, Finance Director

# MAGNOLIA SCIENCE ACADEMY-3

## SUPPLEMENTARY INFORMATION

### SCHEDULE OF AVERAGE DAILY ATTENDANCE

	<u>Annual ADA</u>	<u>Second Period ADA</u>
<i>Elementary School</i>		
Grades four through six-classroom based	37.56	35.28
Grades seven through eight-classroom based	155.25	160.43
Total	192.81	195.71

The above schedule of average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

### SCHEDULE OF INSTRUCTIONAL TIME

<u>Grade level</u>	<u>Minute requirement</u>	<u>Actual minutes</u>	<u>Number of days</u>	<u>Status</u>
Grade 6	52,457	67,148	176	Complied
Grade 7	52,457	67,148	176	Complied
Grade 8	52,457	67,148	176	Complied
Grade 9	62,949	67,148	176	Complied
Grade 10	62,949	67,148	176	Complied
Grade 11	62,949	67,148	176	Complied
Grade 12	62,949	67,148	176	Complied

The above schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

***SUPPLEMENTARY INFORMATION SECTION  
REQUIRED BY GOVERNMENT AUDITING STANDARDS***

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-3**  
Carson, California

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of **Magnolia Science Academy-3** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Magnolia Science Academy-3's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Magnolia Science Academy-3's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Magnolia Science Academy-3's** internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Magnolia Science Academy-3's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of **Magnolia Science Academy-3's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Morgan and Associates LLP*

Carson, California  
November 23, 2010

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-3**  
Gardena, California

### INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the financial statements of **Magnolia Science Academy-3** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of **Magnolia Science Academy-3** is responsible for compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine **Magnolia Science Academy-3's** compliance with state laws and regulations applicable to the following:

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
Attendance Accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuance	3	Not applicable
Independent study	23	Not applicable
Continuation education	10	Not applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
<b>Instructional Time:</b>		
School districts	6	Not applicable
County offices of education	3	Not applicable
<b>Instructional Materials:</b>		
General requirements	8	Not applicable
Ratios of Administrative Employees to Teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Not applicable
School accountability report cards	3	Not applicable
Public hearing requirements-receipt of funds	1	Not applicable
<b>Class Size Reduction Program (Including Charter School):</b>		
General requirements	7	Not applicable
Option one classes	3	Not applicable
Option two classes	4	Not applicable
District or charter schools with only one school		
Servicing K-3	4	Not applicable
<b>After school education and safety program: (Including Charter Schools):</b>		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
<b>Charter Schools:</b>		
Contemporaneous record of attendance	1	Yes
Mode of instructions	1	Yes
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instructional minutes-classroom based	3	Yes

Based on our audit, we found that, for the items tested, **Magnolia Science Academy-3** complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that **Magnolia Science Academy-3** had not complied with the state laws and regulations.

This report is intended solely for the information and use of **Magnolia Science Academy-3's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY-3**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FINANCIAL STATEMENT FINDINGS**

None noted.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**

None noted.

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings noted.

***MAGNOLIA SCIENCE ACADEMY-4  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2010***

## ***MAGNOLIA SCIENCE ACADEMY-4***

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# **HILL, MORGAN AND ASSOCIATES, LLP**

## ***Certified Public Accountants***

19602 Farman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-4**  
Los Angeles, California

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial position of **Magnolia Science Academy-4** as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Magnolia Science Academy-4's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Science Academy-4** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2010 on our consideration of **Magnolia Science Academy-4's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Magnolia Science Academy-4** taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Megam and Associates, LLP*

Carson, California  
October 13, 2010

**MAGNOLIA SCIENCE ACADEMY 4**  
**STATEMENT OF FINANCIAL POSITION**  
At June 30, 2010

<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 134,109
Account receivable	140,700
Prepaid expenses	<u>26,227</u>
<b>Total current assets</b>	<u>301,036</u>
<b>PROPERTY AND EQUIPMENT:</b>	
Furniture and equipment	83,428
Less: accumulated depreciation	<u>(17,346)</u>
<b>Net property and equipment</b>	<u>66,082</u>
<b>Total assets</b>	<u><u>\$ 367,118</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Account payable	\$ 9,338
Lease payable - current portion (Note 3)	22,428
Loans payable - current portion (Note 4)	<u>20,000</u>
<b>Total current liabilities</b>	<u>51,766</u>
<b>LONG-TERM LIABILITIES:</b>	
Lease payable - long term portion (Note 3)	5,912
Loans payable - net of current portion (Note 4)	<u>80,000</u>
<b>Total long-term liabilities</b>	<u>85,912</u>
<b>Total liabilities</b>	<u>137,678</u>
<b>NET ASSETS:</b>	
Unrestricted	<u>229,440</u>
<b>Total net assets</b>	<u>229,440</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 367,118</u></u>

The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 4**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

**REVENUES:**

Federal support	\$	202,366
State support		613,257
Local support		<u>19,730</u>

<b>Total revenues</b>		<u>835,353</u>
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**EXPENSES:**

Certificated salaries	308,923
Classified salaries	103,124
Fringe benefits	134,697
Books and supplies	65,000
Services and other operating expenses	237,521
Interest expense	4,687
Depreciation	8,342
Other outgo	<u>35</u>

<b>Total expenses</b>	<u>862,329</u>
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<b>Decrease in net assets</b>	(26,976)
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Net assets, beginning of the year	<u>256,416</u>
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<b>Net assets, end of the year</b>	<u><u>\$ 229,440</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 4**  
**STATEMENT OF CASH FLOWS**  
For the year ended June 30, 2010

<b>Cash flows from operating activities:</b>	
Decrease in net assets	\$ (26,976)
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	8,342
Adjustment to fixed assets	6,612
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets:	
Account receivable	(140,700)
Prepaid expense	(26,227)
Increase (decrease) in liabilities:	
Account payable	<u>9,338</u>
<b>Net cash used in operating activities</b>	<u>(169,611)</u>
<b>Cash flows from financing activities:</b>	
Proceeds from loan	100,000
Payment to lease liability	<u>(20,594)</u>
<b>Net cash provided by financing activities</b>	<u>79,406</u>
<b>Net decrease in cash</b>	<u>(90,205)</u>
Cash and cash equivalents, beginning of the year	<u>224,314</u>
<b>Cash and cash equivalents, end of the year</b>	<u><u>\$ 134,109</u></u>

The accompanying notes are an integral part of these financial statements.

## **MAGNOLIA SCIENCE ACADEMY-4**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **NATURE OF BUSINESS**

Magnolia Science Academy-4 (School) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 97 students. The School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

##### **FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements are prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations."

##### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **CASH AND CASH EQUIVALENTS**

For the purpose of the Statement of Cash Flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

##### **INCOME TAXES**

The School is considered to be a local school district for tax purposes. Accordingly, no provisions for income taxes or related credits are included in the accompanying financial statements.

##### **PROPERTY AND EQUIPMENT**

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

These notes are an integral part of the preceding financial statements.

# MAGNOLIA SCIENCE ACADEMY-4

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 2 - OPERATING LEASES**

The School entered into a lease agreement for a copier starting on September 18, 2008. The terms of the lease require 60 monthly payments of \$535.

The future minimum commitments are as follows:

<u>For the year ended June 30,</u>	<u>Copier</u>
2011	\$ 6,420
2012	6,420
2013	<u>1,607</u>
Total	\$ <u>14,447</u>

### **NOTE 3 - LEASE PAYABLE-CAPITAL LEASE**

On September 15, 2008, the School entered a lease agreement with a local bank for financing the purchase of computers for the amount of \$63,267. The lease is payable in 36 month with and annual interest rate of 8.56%.

Principal maturities are listed as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2011	22,428
2012	<u>5,912</u>
Total	\$ <u>28,340</u>

### **NOTE 4 - LOANS PAYABLE**

#### **CALIFORNIA DEPARTMENT OF EDUCATION**

The School received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.

These notes are an integral part of the preceding financial statements.

**MAGNOLIA SCIENCE ACADEMY-4**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – LOANS PAYABLE-(continued)**

Principal maturities for the outstanding loans are listed as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2011	\$ 20,000
2012	20,000
2013	20,000
2014	20,000
2015	<u>20,000</u>
Total	\$ <u>100,000</u>

**NOTE 5 – YEARLY OPERATION LEASE**

On September 8, 2009, the School entered a lease agreement with Los Angeles Unified School District for the use of an education facility in Los Angeles. The lease is renewed yearly based on mutual agreement. The annual lease amount for fiscal year 2009-2010 was \$47,548.

These notes are an integral part of the preceding financial statements.

***SUPPLEMENTARY INFORMATION***



## **MAGNOLIA SCIENCE ACADEMY-4**

### **SUPPLEMENTARY INFORMATION**

#### **LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE**

Name of School	Magnolia Science Academy-4
Sponsoring District	LAUSD
Original date of charter	5/8/2008
Charter expiration date	6/30/2013

#### **GOVERNING BOARD**

<u>Member</u>	<u>Title</u>	<u>Term Expires</u>
Metin Oguzmert	President	06/30/12
Saken Sherkhanov	Vice President	06/30/13
Nichole Ataizi	Secretary	06/30/13
Bayram Yenikaya	Director	11/19/14
Mustafa Kaynak	Director	11/19/14
Duygu Ustun	Director	11/19/14
Pauline Galeano	Director	11/19/14

#### **MANAGEMENT TEAM**

Mahmut Altun- Principal  
Mekan Muhammedov, Finance Director

## MAGNOLIA SCIENCE ACADEMY-4

### SUPPLEMENTARY INFORMATION

#### SCHEDULE OF AVERAGE DAILY ATTENDANCE

	<u>Annual ADA</u>	<u>Second Period ADA</u>
<i>Elementary School</i>		
Grades four through six-classroom based	25.04	25.30
Grades seven through eight-classroom based	67.23	68.39
Total	92.27	93.69

The above schedule of average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

#### SCHEDULE OF INSTRUCTIONAL TIME

<u>Grade level</u>	<u>Minute requirement</u>	<u>Actual minutes</u>	<u>Number of days</u>	<u>Status</u>
Grade 6	52,457	72,498	177	Complied
Grade 7	52,457	72,498	177	Complied
Grade 8	52,457	72,498	177	Complied

The above schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

***SUPPLEMENTARY INFORMATION SECTION  
REQUIRED BY GOVERNMENT AUDITING STANDARDS***

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-4**  
Los Angeles, California

### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of **Magnolia Science Academy-4** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Magnolia Science Academy-4's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Magnolia Science Academy-4's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Magnolia Science Academy-4's** internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Magnolia Science Academy-4's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of **Magnolia Science Academy-4's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-4**  
Los Angeles, California

### INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the financial statements of **Magnolia Science Academy-4** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of **Magnolia Science Academy-4** is responsible for compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine **Magnolia Science Academy-4's** compliance with state laws and regulations applicable to the following:

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
Attendance Accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuance	3	Not applicable
Independent study	23	Not applicable
Continuation education	10	Not applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
<b>Instructional Time:</b>		
School districts	6	Not applicable
County offices of education	3	Not applicable
<b>Instructional Materials:</b>		
General requirements	8	Not applicable
<b>Ratios of Administrative Employees to Teachers</b>	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Not applicable
School accountability report cards	3	Not applicable
Public hearing requirements-receipt of funds	1	Not applicable
<b>Class Size Reduction Program (Including Charter School):</b>		
General requirements	7	Not applicable
Option one classes	3	Not applicable
Option two classes	4	Not applicable
District or charter schools with only one school		
Servicing K-3	4	Not applicable
<b>After school education and safety program: (Including Charter Schools):</b>		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
<b>Charter Schools:</b>		
Contemporaneous record of attendance	1	Yes
Mode of instructions	1	Yes
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instructional minutes-classroom based	3	Yes

Based on our audit, we found that, for the items tested, **Magnolia Science Academy-4** complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that **Magnolia Science Academy-4** had not complied with the state laws and regulations.

This report is intended solely for the information and use of **Magnolia Science Academy-4's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hell, Megan and Associates, LLP*

Carson, California  
November 23, 2010



**MAGNOLIA SCIENCE ACADEMY-4**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FINANCIAL STATEMENT FINDINGS**

None noted.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**

None noted.

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings noted.

***MAGNOLIA SCIENCE ACADEMY-5  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2010***

## ***MAGNOLIA SCIENCE ACADEMY-5***

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# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-5**  
Hollywood, California

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial position of **Magnolia Science Academy-5** as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Magnolia Science Academy-5's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Science Academy-5** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2010 on our consideration of **Magnolia Science Academy-5's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Magnolia Science Academy-5** taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hell, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY 5**  
**STATEMENT OF FINANCIAL POSITION**  
At June 30, 2010

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 146,676
Account receivable	192,766
Prepaid expenses	34,966
Loans receivable - related party (Note 2)	<u>40,000</u>

**Total current assets** 414,408

**PROPERTY AND EQUIPMENT:**

Furniture and equipment	63,267
Less: accumulated depreciation	<u>(18,981)</u>

**Net property and equipment** 44,286

**Total assets** \$ 458,694

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	\$ 26,546
Lease payable - current portion (Note 3)	22,428
Loans payable - current portion (Note 4)	<u>20,000</u>

**Total current liabilities** 68,974

**LONG-TERM LIABILITIES:**

Lease payable - net of current portion (Note 3)	5,912
Loans payable - net of current portion (Note 4)	<u>80,000</u>

**Total long-term liabilities** 85,912

**Total liabilities** 154,886

**NET ASSETS:**

Unrestricted	<u>303,808</u>
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**Total net assets** 303,808

**Total liabilities and net assets** \$ 458,694

The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 5**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

**REVENUES:**

Federal support	\$ 221,364
State support	740,517
Local support	<u>17,806</u>

<b>Total revenues</b>	<u>979,687</u>
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**EXPENSES:**

Certificated salaries	325,380
Classified salaries	99,899
Fringe benefits	127,476
Books and supplies	101,737
Services and other operating expenses	296,019
Interest expense	3,753
Depreciation	<u>12,654</u>

<b>Total expenses</b>	<u>966,918</u>
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<b>Increase in net assets</b>	12,769
-------------------------------	--------

Net assets, beginning of the year	<u>291,039</u>
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<b>Net assets, end of the year</b>	<u><u>\$ 303,808</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 5**  
**STATEMENT OF CASH FLOWS**  
For the year ended June 30, 2010

<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 12,769
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	12,654
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets:	
Account receivable	(192,766)
Prepaid expense	(34,966)
Increase (decrease) in liabilities:	
Accounts payable	25,332
<b>Net cash used in operating activities</b>	<u>(176,977)</u>
<b>Cash flows from financing activities:</b>	
Cash used to extend loans to a related party	(40,000)
Proceeds from loan	100,000
Cash used to pay lease liabilitye	<u>(20,594)</u>
<b>Net cash provided by financing activities</b>	<u>39,406</u>
<b>Net decrease in cash</b>	<u>(137,571)</u>
Cash and cash equivalents, beginning of the year	<u>284,247</u>
<b>Cash and cash equivalents, end of the year</b>	<u>\$ 146,676</u>
<b>SUPPLEMENTAL INFORMATION:</b>	
Cash paid for interest expense	<u>\$ 3,753</u>

The accompanying notes are an integral part of these financial statements.



## **MAGNOLIA SCIENCE ACADEMY-5**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **NATURE OF BUSINESS**

Magnolia Science Academy-5 (School) is a charter school located in Hollywood, California that provides sixth through twelfth grade education to approximately 114 students. The School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

##### **FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements are prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations."

##### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **CASH AND CASH EQUIVALENTS**

For the purpose of the Statement of Cash Flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

##### **INCOME TAXES**

The School is considered to be a local school district for tax purposes. Accordingly, no provisions for income taxes or related credits are included in the accompanying financial statements.

##### **PROPERTY AND EQUIPMENT**

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

These notes are an integral part of the preceding financial statements.

# **MAGNOLIA SCIENCE ACADEMY-5**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 2 – LOANS RECEIVABLE-RELATED PARTY**

On August 18, 2009, the School extended a loan to a related party for the amount of \$20,000. On June 29, 2010, the School extended another loan to another related party for the amount of \$20,000. These loans are interest free and are due within 12 months. The outstanding balance of these loans on June 30, 2010 was \$40,000.

### **NOTE 3 – LEASE PAYABLE-CAPITAL LEASE**

On September 15, 2008, the School entered a lease agreement with a local bank for financing the purchase of computers for the amount of \$63,267. The lease is payable in 36 month with an annual interest rate of 8.56%.

Principal maturities are listed as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2011	22,428
2012	<u>5,912</u>
Total	\$ <u>28,340</u>

### **NOTE 4 – LOANS PAYABLE**

#### **CALIFORNIA DEPARTMENT OF EDUCATION**

The School received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.

These notes are an integral part of the preceding financial statements.

# MAGNOLIA SCIENCE ACADEMY-5

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 4 – LOANS PAYABLE-(continued)**

Principal maturities for the outstanding loans are listed as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2011	\$ 20,000
2012	20,000
2013	20,000
2014	20,000
2015	<u>20,000</u>
Total	\$ <u>100,000</u>

### **NOTE 5 – YEARLY OPERATION LEASE**

On July 15, 2010, the School entered a lease agreement with Los Angeles Unified School District for the use of an education facility in Los Angeles. The lease is renewed yearly based on mutual agreement. The annual lease amount for fiscal year 2010-2011 is \$51,452.

These notes are an integral part of the preceding financial statements.

***SUPPLEMENTARY INFORMATION***

## **MAGNOLIA SCIENCE ACADEMY-5**

### **SUPPLEMENTARY INFORMATION**

#### **LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE**

Name of School	Magnolia Science Academy-5
Sponsoring District	LAUSD
Original date of charter	5/8/2008
Charter expiration date	6/30/2013

#### **GOVERNING BOARD**

<u>Member</u>	<u>Title</u>	<u>Term Expires</u>
Metin Oguzmert	President	06/30/12
Saken Sherkhanov	Vice President	06/30/13
Nichole Ataizi	Secretary	06/30/13
Bayram Yenikaya	Director	11/19/14
Mustafa Kaynak	Director	11/19/14
Duygu Ustun	Director	11/19/14
Pauline Galeano	Director	11/19/14

#### **MANAGEMENT TEAM**

Suleyman Karaman - Principal  
Mekan Muhammedov, Finance Director

## MAGNOLIA SCIENCE ACADEMY-5

### SUPPLEMENTARY INFORMATION

#### **SCHEDULE OF AVERAGE DAILY ATTENDANCE**

	<u>Annual ADA</u>	<u>Second Period ADA</u>
<i>Elementary School</i>		
Grades four through six-classroom based	44.59	44.33
Grades seven through eight-classroom based	68.10	69.22
Total	<u>112.69</u>	<u>113.55</u>

The above schedule of average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

#### **SCHEDULE OF INSTRUCTIONAL TIME**

<u>Grade level</u>	<u>Minute requirement</u>	<u>Actual minutes</u>	<u>Number of days</u>	<u>Status</u>
Grade 6	52,457	76,655	175	Complied
Grade 7	52,457	76,655	175	Complied
Grade 8	52,457	76,655	175	Complied

The above schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

***SUPPLEMENTARY INFORMATION SECTION  
REQUIRED BY GOVERNMENT AUDITING STANDARDS***

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-5**  
Hollywood, California

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of **Magnolia Science Academy-5** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Magnolia Science Academy-5's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Magnolia Science Academy-5's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Magnolia Science Academy-5's** internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Magnolia Science Academy-5's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of **Magnolia Science Academy-5's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hell, Morgan and Associates LLP*

Carson, California  
November 23, 2010

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

### Partners

Jeffrey Hill, CPA

Raymond Morgan, CPA

To the Board of Directors

**Magnolia Science Academy-5**

Hollywood, California

### INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the financial statements of **Magnolia Science Academy-5** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of **Magnolia Science Academy-5** is responsible for compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine **Magnolia Science Academy-5's** compliance with state laws and regulations applicable to the following:

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
Attendance Accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuance	3	Not applicable
Independent study	23	Not applicable
Continuation education	10	Not applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
<b>Instructional Time:</b>		
School districts	6	Not applicable
County offices of education	3	Not applicable
<b>Instructional Materials:</b>		
General requirements	8	Not applicable
<b>Ratios of Administrative Employees to Teachers</b>	1	Not applicable
<b>Classroom teacher salaries</b>	1	Not applicable
<b>Early retirement incentive</b>	4	Not applicable
<b>Gann limit calculation</b>	1	Not applicable
<b>School accountability report cards</b>	3	Not applicable
<b>Public hearing requirements-receipt of funds</b>	1	Not applicable
<b>Class Size Reduction Program (Including Charter School):</b>		
General requirements	7	Not applicable
Option one classes	3	Not applicable
Option two classes	4	Not applicable
District or charter schools with only one school		
Servicing K-3	4	Not applicable
<b>After school education and safety program: (Including Charter Schools):</b>		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
<b>Charter Schools:</b>		
Contemporaneous record of attendance	1	Yes
Mode of instructions	1	Yes
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instructional minutes-classroom based	3	Yes

Based on our audit, we found that, for the items tested, **Magnolia Science Academy-5** complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that **Magnolia Science Academy-5** had not complied with the state laws and regulations.

This report is intended solely for the information and use of **Magnolia Science Academy-5's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hell, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY-5**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FINANCIAL STATEMENT FINDINGS**

None noted.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**

None noted.

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings noted.

***MAGNOLIA SCIENCE ACADEMY-6  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2010***

## ***MAGNOLIA SCIENCE ACADEMY-6***

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# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-6**  
Los Angeles, California

### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of financial position of **Magnolia Science Academy-6** as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Magnolia Science Academy-6's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Science Academy-6** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2010 on our consideration of **Magnolia Science Academy-6's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Magnolia Science Academy-6** taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Helly Meryan and Associates LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY 6**  
**STATEMENT OF FINANCIAL POSITION**  
At June 30, 2010

<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 83,528
Account receivable	100,266
Loans receivable - related party (Note 2)	<u>105,000</u>
<b>Total current assets</b>	<u>288,794</u>
<b>PROPERTY AND EQUIPMENT:</b>	
Furniture and equipment	47,128
Less: accumulated depreciation	<u>(4,713)</u>
<b>Net property and equipment</b>	<u>42,415</u>
<b>Total assets</b>	<u><u>\$ 331,209</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 17,671
Loans payable - current portion	<u>20,000</u>
<b>Total current liabilities</b>	37,671
<b>LONG-TERM LIABILITIES:</b>	
Loans payable - net of current portion	<u>80,000</u>
<b>Total liabilities</b>	<u>117,671</u>
<b>NET ASSETS:</b>	
Unrestricted	<u>213,538</u>
<b>Total net assets</b>	<u>213,538</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 331,209</u></u>

The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 6**  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

**REVENUES:**

Federal support	\$ 368,737
State support	487,998
Local support	<u>359,313</u>

<b>Total revenues</b>	<u>1,216,048</u>
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**EXPENSES:**

Certificated salaries	288,444
Classified salaries	35,229
Fringe benefits	115,396
Books and supplies	105,710
Services and other operating expenses	453,018
Depreciation	<u>4,713</u>

<b>Total expenses</b>	<u>1,002,510</u>
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<b>Increase in net assets</b>	213,538
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Net assets, beginning of the year	<u>-</u>
-----------------------------------	----------

<b>Net assets, end of the year</b>	<u><u>\$ 213,538</u></u>
------------------------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY 6**  
**STATEMENT OF CASH FLOWS**  
For the year ended June 30, 2010

<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 213,538
<b>Adjustments to reconcile change in net assets</b>	
<b>to net cash provided by operating activities:</b>	
Depreciation	4,713
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets:	
Account receivable	(100,266)
Increase (decrease) in liabilities:	
Accounts payable	<u>17,671</u>
<b>Net cash provided by operating activities</b>	<u>135,656</u>
<b>Cash flows from investing activities:</b>	
Cash used to purchase fixed assets	<u>(47,128)</u>
<b>Net cash used in investing activities</b>	<u>(47,128)</u>
<b>Cash flows from financing activities:</b>	
Cash used to extend loans	(105,000)
Proceeds from loans	<u>100,000</u>
<b>Net cash used in financing activities</b>	<u>(5,000)</u>
<b>Net increase in cash</b>	<u>83,528</u>
Cash and cash equivalents, beginning of the year	<u>-</u>
<b>Cash and cash equivalents, end of the year</b>	<u><u>\$ 83,528</u></u>

The accompanying notes are an integral part of these financial statements.

## **MAGNOLIA SCIENCE ACADEMY-6**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **NATURE OF BUSINESS**

Magnolia Science Academy-6 (School) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 76 students. The School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

##### **FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements are prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations."

##### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

##### **CASH AND CASH EQUIVALENTS**

For the purpose of the Statement of Cash Flows, the School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

##### **INCOME TAXES**

The School is considered to be a local school district for tax purposes. Accordingly, no provisions for income taxes or related credits are included in the accompanying financial statements.

##### **PROPERTY AND EQUIPMENT**

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

These notes are an integral part of the preceding financial statements.

# MAGNOLIA SCIENCE ACADEMY-6

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 2 – LOANS RECEIVABLE-RELATED PARTY**

On April 28, 2010, the School extended a loan to a related party for the amount of \$40,000. On June 17, 2010, the School extended another loan to the same party for the amount of \$65,000. These loans are interest free and are due within 12 months. The outstanding balance of these loans on June 30, 2010 was \$105,000.

### **NOTE 3 – LOANS PAYABLE**

#### **CALIFORNIA DEPARTMENT OF EDUCATION**

The School received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.

Principal maturities for the outstanding loans are listed as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2011	\$ 20,000
2012	20,000
2013	20,000
2014	20,000
2015	<u>20,000</u>
Total	\$ <u>100,000</u>

These notes are an integral part of the preceding financial statements.

***SUPPLEMENTARY INFORMATION***

## **MAGNOLIA SCIENCE ACADEMY-6**

### **SUPPLEMENTARY INFORMATION**

#### **LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE**

Name of School	Magnolia Science Academy-6
Sponsoring District	LAUSD
Original date of charter	05/08/2008
Charter expiration date	6/30/2013

#### **GOVERNING BOARD**

<u>Member</u>	<u>Title</u>	<u>Term Expires</u>
Metin Oguzmert	President	06/30/12
Saken Sherkhanov	Vice President	06/30/13
Nichole Ataizi	Secretary	06/30/13
Bayram Yenikaya	Director	11/19/14
Mustafa Kaynak	Director	11/19/14
Duygu Ustun	Director	11/19/14
Pauline Galeano	Director	11/19/14

#### **MANAGEMENT TEAM**

Ismail Ozis- Principal  
Mekan Muhammedov, Finance Director



## MAGNOLIA SCIENCE ACADEMY-6

### SUPPLEMENTARY INFORMATION

#### SCHEDULE OF AVERAGE DAILY ATTENDANCE

	<u>Annual ADA</u>	<u>Second Period ADA</u>
<i>Elementary School</i>		
Grades four through six-classroom based	34.12	34.96
Grades seven through eight-classroom based	38.09	38.02
Total	72.21	72.98

The above schedule of average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

#### SCHEDULE OF INSTRUCTIONAL TIME

<u>Grade level</u>	<u>Minute requirement</u>	<u>Actual minutes</u>	<u>Number of days</u>	<u>Status</u>
Grade 6	52,457	73,836	175	Complied
Grade 7	52,457	73,836	175	Complied
Grade 8	52,457	73,836	175	Complied
Grade 9	62,949	73,836	175	Complied
Grade 10	62,949	73,836	175	Complied
Grade 11	62,949	73,836	175	Complied
Grade 12	62,949	73,836	175	Complied

The above schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code Sections 46200 through 46206.

***SUPPLEMENTARY INFORMATION SECTION  
REQUIRED BY GOVERNMENT AUDITING STANDARDS***

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-6**  
Los Angeles, California

### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of **Magnolia Science Academy-6** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Magnolia Science Academy-6's** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Magnolia Science Academy-6's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Magnolia Science Academy-6's** internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Magnolia Science Academy-6's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of **Magnolia Science Academy-6's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

19602 Fariman Drive Carson, CA 90746 Phone (310) 749-1014 Fax (310) 639-0498  
9031 Krueger Street, Culver City, CA 90232 Phone (323) 377-4385 Fax (310) 836-5727

Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors  
**Magnolia Science Academy-6**  
Los Angeles, California

### INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the financial statements of **Magnolia Science Academy-6** as of and for the year ended June 30, 2010 and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Education Audit Appeals Panel's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of **Magnolia Science Academy-6** is responsible for compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine **Magnolia Science Academy-6's** compliance with state laws and regulations applicable to the following:

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
Attendance Accounting:		
Attendance reporting	8	Not applicable
Kindergarten continuance	3	Not applicable
Independent study	23	Not applicable
Continuation education	10	Not applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures performed</u>
<b>Instructional Time:</b>		
School districts	6	Not applicable
County offices of education	3	Not applicable
<b>Instructional Materials:</b>		
General requirements	8	Not applicable
Ratios of Administrative Employees to Teachers	1	Not applicable
Classroom teacher salaries	1	Not applicable
Early retirement incentive	4	Not applicable
Gann limit calculation	1	Not applicable
School accountability report cards	3	Not applicable
Public hearing requirements-receipt of funds	1	Not applicable
<b>Class Size Reduction Program (Including Charter School):</b>		
General requirements	7	Not applicable
Option one classes	3	Not applicable
Option two classes	4	Not applicable
District or charter schools with only one school		
Servicing K-3	4	Not applicable
<b>After school education and safety program: (Including Charter Schools):</b>		
General requirements	4	Not applicable
After school	4	Not applicable
Before school	5	Not applicable
<b>Charter Schools:</b>		
Contemporaneous record of attendance	1	Yes
Mode of instructions	1	Yes
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instructional minutes-classroom based	3	Yes

Based on our audit, we found that, for the items tested, **Magnolia Science Academy-6** complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that **Magnolia Science Academy-6** had not complied with the state laws and regulations.

This report is intended solely for the information and use of **Magnolia Science Academy-6's** management, the State Controller's Office, and the Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Meyer and Associates, LLP*

Carson, California  
November 23, 2010

**MAGNOLIA SCIENCE ACADEMY-6**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FINANCIAL STATEMENT FINDINGS**

None noted.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**

None noted.

**STATUS OF PRIOR YEAR FINDINGS**

There were no prior year findings noted.



***MAGNOLIA EDUCATIONAL AND RESEARCH  
FOUNDATION  
CONSOLIDATED AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2010***

***MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION***

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# HILL, MORGAN AND ASSOCIATES, LLP

## *Certified Public Accountants*

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Partners  
Jeffrey Hill, CPA  
Raymond Morgan, CPA

To the Board of Directors of the  
**Magnolia Educational and Research Foundation**  
Westminster, California

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statement of financial position of **Magnolia Educational and Research Foundation** as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Magnolia Educational and Research Foundation's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Educational and Research Foundation** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Hill, Morgan and Associates, LLP*

Carson, California  
November 23, 2010

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
At June 30, 2010

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 771,440
Accounts receivable	2,004,016
Prepaid expense	<u>63,404</u>

<b>Total current assets</b>	<u>2,838,860</u>
-----------------------------	------------------

**PROPERTY AND EQUIPMENT:**

Equipment (Note 2)	853,254
Leasehold improvements (Note 2)	373,808
Less: accumulated depreciation (Note 2)	<u>(730,277)</u>

<b>Net property and equipment</b>	<u>496,785</u>
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**OTHER ASSETS:**

Security deposits	<u>39,035</u>
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<b>Total other assets</b>	<u>39,035</u>
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<b>Total assets</b>	<u><u>\$ 3,374,680</u></u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable	\$ 302,850
Accrued payroll and related liabilities	56,358
Loans and lines of credit payable-current portion (Note 3)	389,824
Lease payable-current portion (Note 4)	<u>56,980</u>

<b>Total current liabilities</b>	<u>806,012</u>
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**LONG-TERM LIABILITIES:**

Loans and lines of credit payable-net of current portion (Note 3)	775,000
Lease payable-net of current portion (Note 4)	<u>11,824</u>

<b>Total long-term liabilities</b>	<u>786,824</u>
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<b>Total liabilities</b>	<u>1,592,836</u>
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**NET ASSETS:**

Unrestricted	<u>1,781,844</u>
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<b>Total net assets</b>	<u>1,781,844</u>
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<b>Total liabilities and net assets</b>	<u><u>\$ 3,374,680</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

**REVENUES:**

Federal, State and local support	\$ 14,120,129
Contributions	57,565
Other income	<u>169,168</u>

<b>Total revenues</b>	<u>14,346,862</u>
-----------------------	-------------------

**EXPENSES:**

Salaries, taxes and benefits	8,581,721
Books and supplies	1,059,895
Services and other operating expenses	3,078,259
Interest	31,260
Depreciation	126,025
Capital outlay	14,904
Special education	219,595
Insurance	143,467
Travel and conferences	53,024
Other expenses	<u>7,169</u>

<b>Total expenses</b>	<u>13,315,319</u>
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<b>Increase in net assets</b>	1,031,543
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Net assets, beginning of the year	<u>750,301</u>
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<b>Net assets, end of the year</b>	<u><u>\$ 1,781,844</u></u>
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The accompanying notes are an integral part of these financial statements.

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended June 30, 2010

<b>Cash flows from operating activities:</b>	
Increase in net assets	\$ 1,031,543
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>	
Depreciation	126,025
<b>Changes in operating assets and liabilities:</b>	
(Increase) decrease in assets:	
Accounts receivable	(1,683,056)
Prepaid expense	(63,404)
Increase (decrease) in liabilities:	
Accounts payable	66,343
Accrued payroll and related liabilities	56,358
Deferred revenue	<u>(250,000)</u>
<b>Net cash used in operating activities</b>	<u>(716,191)</u>
<b>Cash flows from investing activities:</b>	
Cash paid for the purchase of fixed assets	<u>(236,626)</u>
<b>Net cash used in investing activities</b>	<u>(236,626)</u>
<b>Cash flows from financing activities:</b>	
Net principal payments on lease liabilities	(29,064)
Net proceeds from loans and lines of credit	<u>641,999</u>
<b>Net cash provided by financing activities</b>	<u>612,935</u>
<b>Net decrease in cash</b>	<u>(339,882)</u>
Cash and cash equivalents, beginning of the year	<u>1,111,322</u>
<b>Cash and cash equivalents, end of the year</b>	<u><u>\$ 771,440</u></u>
<b>SUPPLEMENTAL INFORMATION:</b>	
Cash paid for interest expense	<u><u>\$ 31,260</u></u>

The accompanying notes are an integral part of these financial statements.

# ***MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION***

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### ***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

#### **NATURE OF BUSINESS**

Magnolia Educational and Research Foundation (a California not-for-profit corporation) operated nine charter schools for students in grades six through twelve. The charter schools operate under the approval of the California State Board of Education and the local school districts. Each school receives public per-pupil funding to help support operations.

#### **BASIS OF ACCOUNTING**

The accompanying financial statements were prepared on the accrual basis in accordance with the AICPA's audit and accounting guide, "Not-For-Profit Organizations."

#### **ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **CASH AND CASH EQUIVALENTS**

For the purpose of the Statement of Cash Flows, Magnolia Educational and Research Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

#### **INCOME TAXES**

Magnolia Educational and Research Foundation is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and had no taxable unrelated business income. Therefore, no provisions for income taxes or related credits are included in the accompanying financial statements.

#### **PROPERTY AND EQUIPMENT**

Property and equipment purchased with a value of \$5,000 or more and a life expectancy greater than two years are capitalized in the year of purchase. Property and equipment are included on the financial statements at cost less the related accumulated depreciation. The depreciation method used by Magnolia Educational and Research Foundation is straight-line over the estimated useful life of the fixed assets.

These notes are an integral part of the preceding financial statements.

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**FINANCIAL STATEMENT PRESENTATION**

The accompanying financial statements include the consolidated activities of Magnolia Educational and Research Foundation and the operations of the following public charter schools during fiscal year ended June 30, 2010:

Magnolia Science Academy (1)  
Magnolia Science Academy (2)  
Magnolia Science Academy (3)  
Magnolia Science Academy (4)  
Magnolia Science Academy (5)  
Magnolia Science Academy (6)  
Magnolia Science Academy San Diego  
Pacific Technology School Orangevale  
Pacific Technology School Santa Ana

**NOTE 2 - PROPERTY AND EQUIPMENT**

Below is a summary of the fixed assets owned by Magnolia Educational and Research Foundation and the schools that they operate:

<u>Description</u>	<u>Est. Life</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Equipment	5	\$ 853,254	\$ (365,020)	\$ 488,234
Leasehold improvements	10	<u>373,808</u>	<u>(365,257)</u>	<u>8,551</u>
Total		\$ <u>1,227,062</u>	\$ <u>(730,277)</u>	\$ <u>496,785</u>

These notes are an integral part of the preceding financial statements.



**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - LOANS AND LINES OF CREDIT PAYABLE**

Magnolia Educational and Research Foundation and the schools that they operate have the following loans and lines of credit outstanding as of June 30, 2010:

Description	Amount
Magnolia Science Academy 2 established a \$50,000 line of credit with a local bank dated July 31, 2001. The outstanding principal balance bears interest at a fluctuating rate per annum equal to the Bank's Reference Rate plus 2.5%. The outstanding balance at June 30, 2010 was \$50,000.	\$ 50,000
Magnolia Science Academy 2 has an unsecured revolving loan payable to the California Department of Education totaling \$150,000 dated June 25, 2009. The loan balance as of June 30, 2010 was \$108,335. The loan has an interest rate of 1.26% and it matures in three years. The repayment terms require six monthly payments each year in three fiscal years beginning on September 20, 2009. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	108,335
Magnolia Science Academy 3 has an unsecured revolving loan payable to the California Department of Education totaling \$250,000. The loan was received in fiscal year 2008-09, and has an interest rate of 1.57%. The loan repayment terms require four annual payments of \$62,500 over the next four years. The outstanding balance was \$197,916 on June 30, 2010. The maturity date is June 30, 2013.	197,916
Magnolia Science Academy 4 has an unsecured revolving loan payable to the California Department of Education totaling \$100,000 dated May 25, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	100,000

These notes are an integral part of the preceding financial statements.

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - LOANS AND LINES OF CREDIT PAYABLE (continued)**

<u>Description</u>	<u>Amount</u>
Magnolia Science Academy 5 has an unsecured revolving loan payable to the California Department of Education totaling \$100,000 dated May 25, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	\$ 100,000
Magnolia Science Academy 6 received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 dated May 25, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	100,000
On November 15, 2007, Magnolia Science Academy San Diego signed a promissory note with various individuals for loans that totaled \$30,500, with an annual interest of 7%. The loans have no specified due date because of the relationship of the lenders to the School. The loans will be repaid once cash becomes available. The outstanding balance for these loans at June 30, 2010 was \$11,910.	11,910
Magnolia Science Academy San Diego received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 dated June 23, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.54% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	100,000
Magnolia Science Academy San Diego established a \$25,000 line of credit with a local bank. The outstanding principal balance bears interest at a fluctuating rate per annum equal to the Bank's Reference Rate plus 2.5%. The outstanding balance at June 30, 2010 was \$8,000.	8,000

These notes are an integral part of the preceding financial statements.

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - LOANS AND LINES OF CREDIT PAYABLE (continued)**

<u>Description</u>	<u>Amount</u>
Pacific Technology School Orangevale received an unsecured revolving loan payable to the California Department of Education totaling \$250,000 dated March 23, 2010. The loan balance as of June 30, 2010 was \$250,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	\$ 250,000
Pacific Technology School Santa Ana received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 dated May 25, 2010. The loan balance as of June 30, 2010 was \$100,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	100,000
Magnolia Educational and Research Foundation established a \$100,000 line of credit with a local bank. The outstanding principal balance bears interest at a fluctuating rate per annum equal to the Bank's Reference Rate plus 2%. The outstanding balance at June 30, 2010 was \$38,663.	<u>38,663</u>
Total	1,164,824
Less current portion	<u>(389,824)</u>
Long-term portion	\$ <u>775,000</u>

These notes are an integral part of the preceding financial statements.

# **MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTE 3 - LOANS AND LINES OF CREDIT PAYABLE (continued)**

The principal maturities for all outstanding loans and lines of credit are as follows:

<u>For the year ended June 30,</u>	<u>Amount</u>
2011	\$ 389,824
2012	262,500
2013	212,500
2014	150,000
2015	150,000
Thereafter	<u>-0-</u>
Total	\$ <u>1,164,824</u>

### **NOTE 4 - CAPITAL LEASE PAYABLE**

<u>Description</u>	<u>Amount</u>
On September 15, 2008, Magnolia Science Academy (4) entered into a lease agreement with a local bank for financing the purchase of computers in the amount of \$63,267. The lease is payable over 36 months with an annual interest rate of 8.56%.	\$ 28,340
On September 15, 2008, Magnolia Science Academy (5) entered into a lease agreement with a local bank for financing the purchase of computers in the amount of \$63,267. The lease is payable over 36 months with an annual interest rate of 8.56%.	28,340
On April 29, 2008, Magnolia Educational and Research Foundation entered into a lease agreement with a local bank for financing the purchase of computers and equipment in the amount of \$12,037. The lease is payable over 36 months with an annual interest rate of 8.56%.	3,342
On April 29, 2008, Magnolia Educational and Research Foundation entered a lease agreement with a local bank for financing the purchase of computers and equipments in the amount of \$32,395. The lease is payable over 36 months with an annual interest rate of 8.56%.	<u>8,842</u>
Total	68,804
Less current portion	(56,980)
Long-term portion	\$ <u>11,824</u>

These notes are an integral part of the preceding financial statements.

**MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL LEASE PAYABLE (continued)**

Principal maturities are listed as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2011	\$ 56,980
2012	11,824
2013	-0-
2014	-0-
2015	-0-
Total	<u>\$ 68,804</u>

**NOTE 5 - LEASE COMMITMENTS**

Magnolia Educational and Research Foundation and the schools that they operate, lease space and equipment for educational purposes. The lease terms expire at various times in the future. The future minimum obligation under these operating type lease agreements as of June 30, 2010 is as follows:

<u>For the year ended June 30,</u>	<u>Amount</u>
2011	\$ 937,435
2012	921,242
2013	472,967
2014	439,982
2015	61,620
Thereafter	<u>-0-</u>
Total	<u>\$ 2,833,246</u>

Total rent expense for the year ended June 30, 2010 was \$1,753,682.

These notes are an integral part of the preceding financial statements.



## **Commission on Teacher Credentialing**

1900 Capitol Avenue Sacramento, CA 95811

(916) 322-6253

Fax (916) 445-0800

[www.ctc.ca.gov](http://www.ctc.ca.gov)

*Office of the Executive Director*

June 3, 2011

Suleyman Bahceci, CEO  
Pacific Technology School-Orange County  
Magnolia Educational and Research Foundation  
13950 Milton Avenue  
Westminster, CA 92683

Dear Dr. Bahceci:

I am pleased to inform you that on May 25, 2011, the Committee on Accreditation, on behalf of the Commission on Teacher Credentialing, granted initial accreditation to the following program of professional preparation submitted by Pacific Technology School – Orange County, Magnolia Educational and Research Foundation:

### **Preliminary Single Subject Teacher Intern Program**

Should you or your staff have any questions relating to this action, you may address them to Cheryl Hickey, Administrator of Accreditation, at (916) 322-0695.

The Commission and its staff are grateful to Pacific Technology School - Orange County, Magnolia Educational and Research Foundation for its commitment to the preparation of professional educators.

Sincerely, .

A handwritten signature in black ink, appearing to read "Dale", followed by a long, horizontal, slightly wavy line that extends to the right.

Dale A. Janssen  
Executive Director

cc: David Yilmaz  
Director of Education

DJ/TC/CH/ta